

A decorative graphic consisting of several overlapping rectangles. The top rectangle is white and contains the word 'People'. Below it are rectangles in shades of blue, purple, and teal, some with diagonal line patterns.

People



People risks

The people risks associated with geopolitics, trade tensions, regulatory crackdowns, disruptive technologies, and pandemics have all been steadily increasing in the last few years. Multilayered compound risks have ushered a more precarious international system, characterized by increasing entropy amongst and within states.

Businesses have had the unenviable task of having to navigate these pressures in a global trade system no longer marked by predictability, stability, and certainty. C-suite executives have had to adjust their modes of operations, with a shift of emphasis from efficiency to more resilience, on various fronts such as supply chains, high-technology products, and even whole business models. As geopolitics rises to the top of risk registers, resilience – individual, corporate, and societal – has become more of an imperative spanning everything from our food and water systems to our environment.

Much of the current era can be marked by the merging of the public and private sectors to effectively deal with society's increasingly complex problems.



Current power dynamics in the international structure have given rise to a new form of expanding state power for geopolitical purposes. State and non-state actors are now able to use a plethora of strategies to further their goals in pursuit of a larger strategic objective. These include cyber attacks, grayzone aggression, sanctions, and subversive business practices that affect target governments' financial positions in international markets. The Covid-19 pandemic appears to have been one of those stressors that encompasses human capital, territory, technology, and natural resources. To better comprehend these shifting dynamics and what they mean for corporations, the WTW Research Network launched a geopolitical risk research program designed to provide a deeper, more sophisticated understanding of issues ranging from the influence of China in the world, grayzone aggression, and the socio-political implications of climate change.

The Russia/Ukraine conflict has raised important questions of corporate neutrality and how corporations can navigate reputational challenges in a world increasingly dominated by social media and consumer boycotts. The WTW Research Network has worked closely with Elisabeth Braw, of the American Enterprise Institute

(AEI), to better understand this dynamic and states' use of grayzone aggression to advance national goals. Chinese consumer boycotts of Western brands and Western boycotts of Russian goods have put companies in delicate positions, balancing shareholder value while also having to appeal to their main customer base. This can be seen as part of a larger ESG trend towards a larger stakeholder approach undertaken by corporates and multinationals to act as responsible societal actors.

While balancing consumer sentiments may fall under the remit of corporations, societal resilience is a society-wide endeavor, led by a symbiotic relationship between governments, civil society and the private sector. WTW continues to be a corporate partner of the National Preparedness Commission, in particular to understand how markets can be more resilient in the face of multiple and cascading crises. Given the debilitating nature of the Covid-19 pandemic on economies, healthcare systems, and social infrastructure, the Commission hopes its work will have a strategic yet practical impact on how the UK – and the world – views society-wide crises.

Omar Samhan

People and Technology Risks Analyst

“Whole of society” approaches to improve preparedness for crises

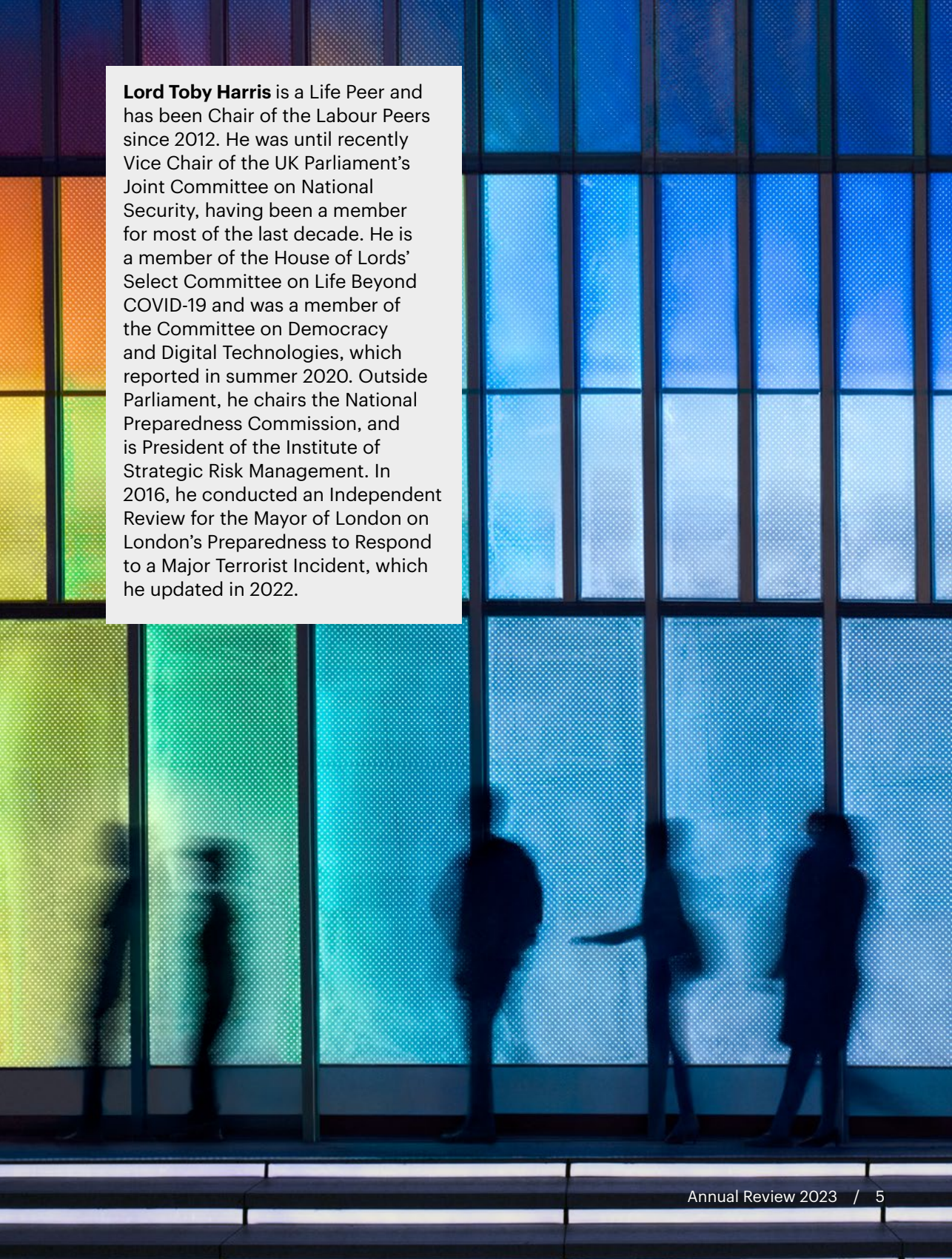
The hope for a return to normal after the Covid-19 pandemic has been dashed by an enduring crisis of energy and geopolitics. The succession of crises highlights the fragility of business models, relying on a ‘just in time’ approach, and trying to shift to a more resilient ‘just in case’ model. It also shows that true resilience requires a “whole of society” approach, and more concerted effort across all sectors, across government, business and civil society.

In this context, the work of the National Preparedness Commission (NPC)¹ launched in November 2020 and chaired by Lord Toby Harris, is more relevant than ever. The Commission is made up of 46 leading figures – including the WTW Research Network Director – from public life, academia, business, and civil society. The aim of the NPC is to promote better preparedness for a major crisis or incident, primarily in the UK, although it attracts interest internationally.

The NPC recognizes that the UK needs to be better prepared to deal with unexpected or unprecedented shocks, but that the government is limited in its resources and bandwidth for action. This was reflected in the government’s Integrated Review, “Global Britain in a Competitive Age”², which calls for a ‘whole of society’ approach to national resilience. The NPC is a microcosm of UK Plc, bringing together stakeholders from public, private, academic and civil society sectors, promoting cross-sectoral debate, best practices and policy. The Commission also holds closed roundtables for Commissioners, civil servants and subject matter experts, held under the Chatham House Rule and allowing detailed discussion of the themes contained in Commission papers or those produced by partner organizations. While attendance of these sessions is restricted, WTW organizes a series of roundtables open to our clients, focusing on those themes after a keynote from an external expert from the WTW Research Network.

¹<https://nationalpreparednesscommission.uk/>

²<https://www.gov.uk/government/publications/global-britain-in-a-competitive-age-the-integrated-review-of-security-defence-development-and-foreign-policy>



Lord Toby Harris is a Life Peer and has been Chair of the Labour Peers since 2012. He was until recently Vice Chair of the UK Parliament's Joint Committee on National Security, having been a member for most of the last decade. He is a member of the House of Lords' Select Committee on Life Beyond COVID-19 and was a member of the Committee on Democracy and Digital Technologies, which reported in summer 2020. Outside Parliament, he chairs the National Preparedness Commission, and is President of the Institute of Strategic Risk Management. In 2016, he conducted an Independent Review for the Mayor of London on London's Preparedness to Respond to a Major Terrorist Incident, which he updated in 2022.

A regular stream of reports and articles on the Commission's website provide an eclectic range of thought-leadership for those interested in preparedness and



Enhancing Warnings

Prepared by Dr Carina Fearnley and Professor Ilan Kelman from the UCL Warnings Research Centre offered insights into what alerts and warning are and how they can better support effective behavioral preparedness and responses across a wide range of hazards, stakeholders and sectors.



Financial Foundations for Resilience

Prepared by Professor Michael Manelli and Lord Toby Harris provided new thinking on how insurance could be used to reduce the impact of all significant risks and hence improve resilience.



Learning that can Save Lives

Prepared by Lianna Roast of the Disaster Management Centre at Bournemouth University examined the process by which lessons identified following some major incident can be applied and embedded in practice.

resilience. The following reports (which were not directly sponsored by WTW) show the ranges of topics addressed:



Independent review of the Civil Contingencies Act

The NPC has published its Review of the 2004 Civil Contingencies Act, led by Bruce Mann, former Director of the Civil Contingencies Secretariat, and based on over 300 interviews. It makes 117 recommendations and concludes that the Government must learn lessons from the COVID-19 pandemic and other emergencies over the last two decades if UK resilience arrangements are to be made fit for the future.



Communicating Effectively with the Public During a Crisis: A Literature Review

Funded by JRSS Charitable Trust, Alliance Manchester Business School and the National Consortium for Societal Resilience [UK+] explored how public trust in democratic institutions can be enhanced through crisis communications. The review includes national and international examples that demonstrate how crisis communications can enhance or undermine that trust.

Geopolitical risk – Grayzone aggression

On August 16, Lloyd's issued one of its regular market bulletins. This one looked just like any other Lloyd's update to its underwriters – but its content was the private sector's most explicit statement to date of how much geopolitics is changing globalised business. Lloyd's announced that it will, as of March 2023, no longer offer stand-alone cyber insurance for state-backed cyber aggression. Geopolitical conflict is entering the globalised economy in full force, not just in Ukraine and Taiwan but around the world.

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Cyber related business continues to be an evolving risk. If not managed properly it has the potential to expose the market to systemic risks that syndicates could struggle to manage¹.

As explained in the market bulletin by
Tony Chaudhry,
LLoyd's Underwriting Director

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He was not exaggerating. In recent years insurers have had to cover the havoc caused by state-backed attacks including \$10 billion² losses incurred by companies hit by Russia's NotPetya attack. Some insurers argued that NotPetya, having been attributed by Western governments to the Russian government should count as an act of war and thus fall under war exclusion clauses. But in January 2022, New Jersey Superior Court ruled³ that one of the companies – Merck – did indeed have the right to coverage of its \$1.4 billion NotPetya

¹ <https://assets.loyds.com/media/35926dc8-c885-497b-aed8-6d2f87c1415d/Y5381%20Market%20Bulletin%20-%20Cyber-attack%20exclusions.pdf>

² www.wired.com/story/notpetya-cyberattack-ukraine-russia-code-crashed-the-world/

³ <https://news.bloomberglaw.com/privacy-and-data-security/mercks-1-4-billion-insurance-win-splits-cyber-from-act-of-war>



losses under its cyber insurance policy with Ace American because a state-backed cyber attack could not be defined as an act of war.

Indeed, NotPetya and the slew of other recent cyber attacks thought to have been executed or supported by hostile states point to a dramatically changing situation for businesses. Just like Merck, they may now find themselves direct or indirect targets of geopolitically motivated aggression. Sweden decided, in late 2020, not to include Huawei in its 5G network, prompting announcements of retaliation by Chinese officials. The following spring, Sweden-based Ericsson won a mere 2%⁴ in China Mobile's massive contract round, down from 11% in the previous round, and its sales declined in the country even as they increased in the rest of the world. Around the same time, after the Australian government had called for an international investigation into the origins of Covid, China – Australian winemakers' most important export market -- imposed punitive tariffs reaching 200% on Australian wine. One year later, Australian wine exports to China had slumped by 96%⁵. In late 2021, after the government of Lithuania invited Taiwan to open a representation office in Vilnius, Chinese ports stopped processing⁶ all goods featuring Lithuanian components.

⁴<https://www.wsj.com/articles/ericsson-beijing-australia-sweden-denmark-5g-national-security-trade-luxury-goods-zte-huawei-11628631680>

⁵<https://www.cnbc.com/2021/04/29/australia-wine-exports-to-china-fall-96percent-in-dec-quarter-tariffs-bite-.html>

⁶<https://www.wsj.com/articles/china-takes-lithuania-as-economic-hostage-taiwan-global-supply-chain-trade-goods-beijing-11641506297>



Like Ericsson and the Australian winemakers, all the companies affected by geopolitically motivated aggression have sustained enormous harm. But it's harm of a kind that they could neither predict nor plan for. And devastating though the aggression's impact has been on each company, it was not war.

All over the world, companies and their insurers are finding themselves in a similar twilight zone. In Taiwan, companies could be cut off from their supply chains and their customers if China behaves in a menacing manner that prompts shipping companies, airlines and their insurers to suspend transportation to the island. And every time the Taipei governments or its allies take a decision that displeases

Elisabeth Braw is a senior fellow at the American Enterprise Institute (AEI), where she focuses on defense against emerging national security challenges, such as hybrid and grayzone threats.

She is a columnist with Foreign Policy and The Wall Street Journal, where she writes on national security and the globalized economy, and a member of the National Preparedness Commission (UK). Before joining AEI, Ms. Braw was a senior research fellow at the Royal United Services Institute for Defence and Security Studies in London, where she founded its modern deterrence project. She is also the author of “God’s Spies: The Stasi’s Cold War Espionage Campaign Inside the Church” (Eerdmans, 2019) and “The Defender’s Dilemma” (2021).

Beijing, the latter may retaliate by harming Taiwanese companies. In August 2022, after US Speaker of the House Nancy Pelosi announced she’d visit Taiwan, Beijing suspended imports⁷ of several hundred Taiwanese products. In the weeks leading up to Russia’s invasion of Ukraine on 24 February 2022, Moscow’s menacing moves along Ukraine’s borders and in the Black Sea similarly demonstrated the harm aggression below the threshold of war can cause companies and thus countries’ economy. Many investors and FDI investors were so rattled⁸ by the prospect of invasion that they withdrew from the country, while international financial markets’ confidence in Ukraine dipped and the cost of insuring

⁷ <https://www.wsj.com/livecoverage/nancy-pelosi-taiwan-visit-china-us-tensions/card/china-suspends-imports-of-hundreds-of-taiwan-products-sK33Qdt5UjPWLguBxOwS>

⁸ <https://www.ft.com/content/1a4efd5e-99c5-4d42-addb-7217c0a76676>

against a sovereign debt default grew. On 15 February, maritime insurers raised⁹ the Ukrainian and Russian parts of the Black Sea to their highest risk category, making insurance more expensive and cumbersome to obtain for shipping companies.

In the end Russia, of course, invaded, but the uncertainty just before the invasion highlights how much damage a country can do to another country without using military force. Using such aggression, known as grayzone aggression, the aggressor country can use any means at its disposal to harm or weaken another country including its civil society, and often these means are not illegal. Positioning tens of thousands of soldiers on one's own side of the border is, for example, perfectly within a country's right.

Indeed, as NotPetya victims' insurers discovered, being able to attribute an act of aggression to a hostile state is little consolation since courts and legislation have not kept up with the evolving nature of conflict. "Traditional policy exclusions for war or war-like incidents fail to adequately capture situations where nation states are suspected of being behind an attack, or providing a safe harbour for the hackers, especially if the motives for the attack are unclear. Such issues of attribution and characterization create significant contractual uncertainty for insurers," the Geneva Association noted¹⁰ in a January 2022 report on cyber aggression.

That leaves companies and insurers in an extremely difficult situation. Because conflict is man-made, it can't be modelled like

natural hazards can. And because grayzone aggression is so innovative and constantly uses new tools, it's also impossible for insurers to know what to model. At the same time, companies are inherently vulnerable to grayzone aggression. Even if they were to perform the feat of limiting both supply chains and sales to friendly countries, they could be targeted by NotPetya-like cyber attacks.

This raises the question of whether insurers will be able to keep offering the all-round protection that companies have become accustomed to. Lloyd's exclusion of state-backed cyber aggression is a clear indicator of underwriters concluding that they have to stop short of covering geopolitically motivated aggression, not just because it can result in catastrophic losses but also because of the extreme difficulty modelling it. (I examined the question of whether grayzone aggression is making some business areas uninsurable in a June 2022 report for the American Enterprise Institute¹¹.)

Compared to the risks affecting most businesses a decade ago, today's risks are capricious and growing in number. That, in combination with the fact that insurance coverage may not be available for all circumstances, makes it imperative for businesses to better understand the geopolitical environment in which they're now operating. Otherwise they may find themselves sudden victims in the manner of Australia's winemarkers, or Merck, or Ericsson, or the other companies have, through no fault of their own, recently found themselves in the line of geopolitical fire.

⁹ <https://www.prospectmagazine.co.uk/world/the-last-thing-ukraine-needs-is-a-shipping-crisis-but-its-about-to-have-one-russia-conflict>

¹⁰ https://www.genevaassociation.org/sites/default/files/research-topics-document-type/pdf_public/cybersolutions_web.pdf

¹¹ <https://www.aei.org/research-products/report/insurance-and-geopolitics-is-geopolitical-confrontation-making-international-business-uninsurable/>

Do rising consumer boycotts threaten corporate geopolitical neutrality?

Consumer boycotts are on the increase and can lead to substantial losses, yet they don't fit neatly into risks traditionally modelled by insurers. This should change.

When one major retailer decided, a few weeks after Russia's invasion of Ukraine, to keep its Russian stores open, consumers in Europe and beyond swiftly vowed to boycott the chain. It's unclear how many actually did, but the reputational harm the boycott caused the retail chain was so severe that the company swiftly reversed course. Its fate seems to have convinced many other Western companies to also leave Russia. Western consumers concerned about geopolitics are likely to turn their sights to companies operating in other countries too – and they're not the only group willing to stage boycotts over geopolitics.

The reputational harm the boycott caused the retail chain was so severe that the company swiftly reversed course.

When Russia invaded Ukraine, the many companies who decided to stay – until a consumer backlash conducted mostly on Twitter convinced them otherwise -- were demonstrating the corporate mindset that has over the decades seen Western companies make and sell their wares in many countries with questionable political or human rights track records. Many did business in apartheid South Africa until a boycott by Western governments forced them to leave. They do business in Myanmar and Saudi Arabia, even though both countries' regimes have a poor human rights record and engage in military violence, in the case of Myanmar against the Rohingya minority and in the case of Saudi Arabia against Yemenis. But Western consumers haven't responded by staging boycotts against Western companies active in these countries.

To be sure, smaller activist groups had criticized¹ a few brands over Myanmar, but until Russia's invasion of Ukraine there hadn't been any major geopolitically motivated boycotts of Western companies.

¹<https://www.ethicalconsumer.org/ethicalcampaigns/boycotts/history-successful-boycotts>



By Western consumers, that is. But they're not the only ones staging boycotts. According to a July 2022, report by researchers at the Swedish National China Centre², a think tank funded by the Swedish government, between 2008 and 2021, Chinese consumers conducted 90 boycotts of foreign companies, with most of the boycotts taking place from 2016 onwards. Most of the boycotts, the researchers found, targeted companies from North America, Europe, Japan or South Korea in the apparel, automotive, and food and beverages sectors: that is, consumer brands. The haute couture houses of Givenchy, Dior, Coach and Versace have also been subjected to Chinese consumer boycotts on social media³, in their case after having seemed to imply that Taiwan is independent by, for example, not including

it on a map of China, while companies including Burberry were targeted over their involvement in the Better Cotton Initiative⁴, which promotes ethical cotton sourcing. "Boycotts were most commonly triggered by company statements or actions perceived as challenging China's governance in Hong Kong or sovereignty over Taiwan, or as unfairly criticising China's human rights record in Xinjiang," the Swedish National China Centre's researchers found. Cotton cultivation in the Xinjiang region, a leading source of cotton, includes use of Uyghur forced labor; the June 2022 Uyghur Forced Labor Prevention Act bans US-based companies⁵ from using cotton whose supply chain involves forced labour.

² <https://kinacentrum.se/en/publications/chinese-consumer-boycotts-of-foreign-companies/>

³ https://www.wsj.com/articles/dior-gets-caught-up-in-chinas-latest-map-flap-11571317112?mod=article_inline

⁴ <https://www.forbes.com/sites/isabeltogoh/2021/03/26/as-burberry-faces-backlash-in-china-over-xinjiang-cotton-other-luxury-brands-could-face-boycott/?sh=16b066bb3f9a>

⁵ <https://www.theguardian.com/world/2022/jun/21/us-ban-on-cotton-from-forced-uyghur-labour-comes-into-force>

The boycotts have a tangible effect on companies' bottom line.

All companies that have suspended operations in Russia or left the country altogether to avoid a consumer boycott – and thus reputational damage – have incurred financial losses. Some have, of course, left the country primarily because they consider it a moral imperative, in which case financial losses are of secondary importance. Others, though, face the new dilemma of leaving a country to avoid a consumer boycott and thus forfeiting revenues – or staying in the country and suffer reputational damage.

Indeed, companies contemplating leaving a country to avoid a consumer boycott face another dilemma: what is the tipping point for consumers to stage a boycott?

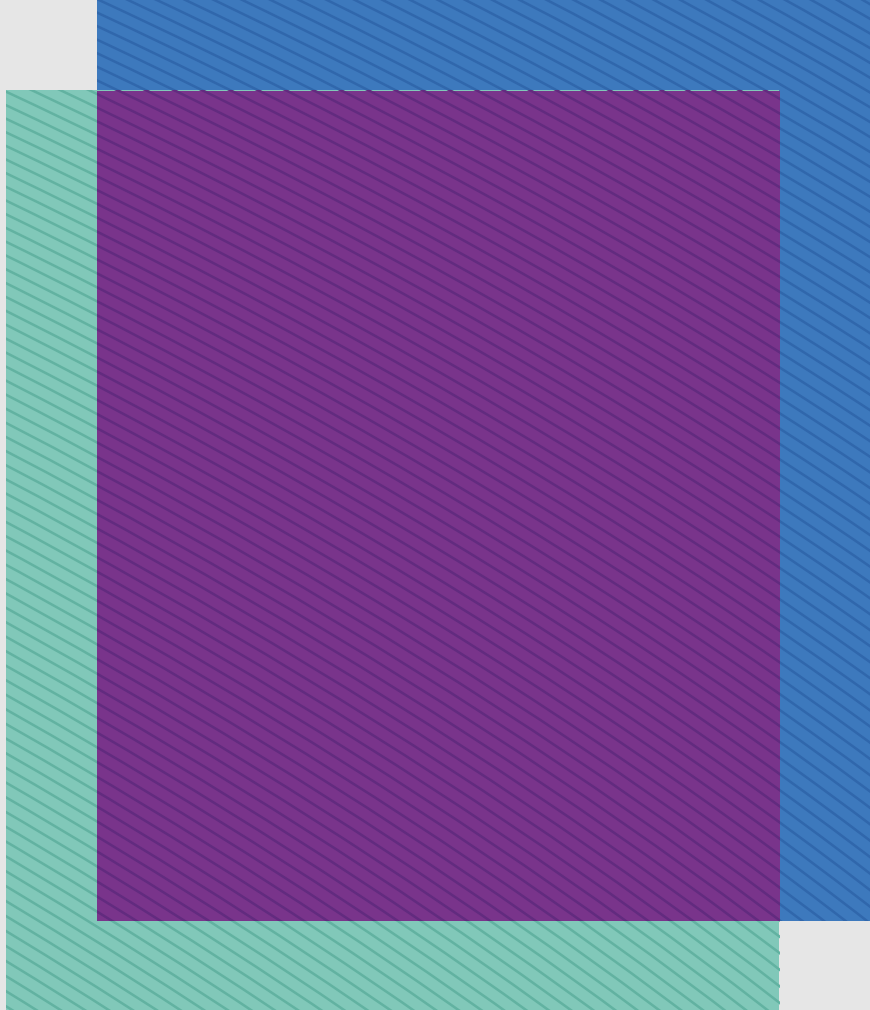
The information available to date provides little guidance. Why did Russia's 24 February invasion trigger consumer boycotts while Russia's 2014 annexation of Crimea did not? Indeed, why did Western consumers hardly react at all after the annexation of Crimea? Why did they not stage boycotts of Western brands active in Saudi Arabia after journalist Jamal Khashoggi was murdered?

It's impossible to know. Indeed, the boycott of a Japanese retailer seems not have been the product of spontaneous outrage among Western consumers, rather than the work of hashtag activism.

That means that the next time an event or an act enrages enough Western consumers, a company involved in the situation faces the risk of a boycott that could do considerable reputational harm on global operations even if it causes only minimal financial losses in the affected region. Chinese consumers, meanwhile, will continue to boycott companies they see as offending China, and consumers in other countries could start targeting companies over specific issues relating to their countries.

Such intangible losses snowballing into substantial tangible financial losses, resulting from consumer boycotts don't fit neatly into risks traditionally modelled by insurers. Indeed, because frequent consumer boycotts from different corners are a new phenomenon, there is little data that underwriters could use for modelling. Consumer sentiment is changing, too: while older consumers focus mostly on quality and price in their choices of consumer products, a 2021 study by the market-research firm Forrester⁶ found that more than half of American Generation Z consumers research brands to ensure they align with "their position on corporate social responsibility." But that modelling should start soon – especially because as geopolitical tension continues to grow, consumer boycotts are certain to increase too.

⁶<https://www.forrester.com/report/a-post-truth-climate-is-shaping-gen-zs-consumer-behaviors/RES164315?objectid=RES164315>



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WTW-83951 02/23

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